Transitioning the Board for a New Generation

By: Craig E. Aronoff, Ph.D.
The Family Business Consulting Group

From the time he bought out his brother-in-law's business, the CEO was committed to excellent management, growing the business to make it attractive to suppliers and customers, and giving his children opportunities for leadership and ownership. He knew he needed help, so he decided to develop an advisory board made up of experienced executives from his own and similar industries who could consistently raise the bar for the CEO and his management team.

The CEO and his advisory board members grew to know each other well and built relationships based on great respect. Management, strategy, finance, information technology and succession were all key issues that the board helped with for over a quarter of a century.

As the next generation matured, management and owners were confronted with new realities. Instead of a sole owner, shares would be divided equally among four offspring all active owners with a deep understanding of the family business and commitment to shared family goals. While several family members were employed by the company, non-family executives served as CEO, COO and CFO. Owners remained committed to growth generated internally and by acquisition, and to maintaining and strengthening the company's culture.

The members of the next generation and their spouses often attended the advisory board meetings that were held three times a year. They reported to the board on their progress and got to know individual advisors fairly well. Their father ultimately shed all titles except that of chairman. A daughter was officially added to the board and after earning the respect of her fellow advisors, was elevated to vice-chairman. That appointment clearly communicated that she was the heir apparent to serve as chairperson of the board. At the same time, the next generation realized that not only would they need to replace aging advisors; they would need to restructure the board to meet the needs of a new generation.

First, the next generation realized that while advice was fine for their sole-owner father, their non-family executives would need to be accountable to the board. Advice may be accepted or rejected by a sole owner/manager. A non-family executive should not have that prerogative. Since the board would base its actions on accountability rather than advice, a new dynamic that would transform the body into a legal board of directors instead of an informally constituted advisory group would make more sense.

Next, the size and composition of the board was analyzed. Over the years, their father had added advisors as the opportunity presented itself. The next generation determined that the board should consist of four independent directors, a blood descendent as chairman and another family member selected by the next-generation group and the CEO. The outsiders would be individuals chosen for their experience and business excellence in similar industries. Unlike their father's advisors, though, the directors for the next generation would not come from suppliers and initially would not be friends.

Because their father had friends as advisors, he paid them only a small honorarium. Since the next generation was not depending on existing relationships to motivate potential directors to join the board, they realized that a more generous honorarium and liability protection would be required.

Their father and his advisory board empowered the next generation, helping and advising with the transition, and standing aside as new directors were selected and integrated into the new governance process. The transition would be gradual, taking three to five years.

The transition wasn't always easy either in its planning or its implementation but patience and commitment allowed this group of family owners to think clearly about their changing governance needs and fruitfully reform their board of directors. They recognized that three dimensions are required to achieve another generation of family and business success:

- Unified, committed owners;
- Outstanding management;
- An excellent board of directors providing oversight, accountability, support and advice.

Craig E. Aronoff, Ph.D. is a co-founder and principal with The Family Business Consulting Group, Inc.
He can be reached at aronoff@thefbcg.com or 678.277.9865.

To learn more about The Family Business Consulting Group and how we serve families like yours, call us at (773) 604-5005 or email us at info@thefbcg.com. There is absolutely no obligation.

The copyright on this article is held by Family Business Consulting Group Publications®. All rights reserved. All forms of reproduction are prohibited. For reprint permission, contact editor@thefbcg.com.

THE FAMILY BUSINESS CONSULTING GROUP, INC. and FBCG are registered trademarks and the FBCG logo is a trademark of The Family Business Consulting Group, Inc.

Reprinted from The Family Business Advisor®, A Family Business Consulting Group, Inc.® Publication

The Family Business Advisor